



**WATER & SEWERAGE AUTHORITY**  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 SEPTEMBER 2008

Ernst & Young

 **ERNST & YOUNG**

WATER & SEWERAGE AUTHORITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

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## INDEPENDENT AUDITORS' REPORT

### TO THE COMMISSIONERS OF THE WATER & SEWERAGE AUTHORITY

We have audited the accompanying financial statements of the Water and Sewerage Authority ("the Authority") which comprise the balance sheet as at 30 September 2008 and the statement of revenue and expenditure, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

INDEPENDENT AUDITORS' REPORT


TO THE COMMISSIONERS OF THE WATER & SEWERAGE AUTHORITY  
(Continued)

**Basis for Qualified Opinion**

As noted in our prior year audit reports, the Authority has been unable to identify and/or obtain title to some of its freehold and leasehold properties due to the non-finalisation of a number of the registered deeds and/or agreements relating to these properties. As a consequence the Authority is unable to fully quantify the estimated liabilities in relation to the completed acquisition of these properties.

**Qualified Opinion**

In our opinion, except for any potential adjustments that may arise from the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Authority as at 30 September 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
Port of Spain  
TRINIDAD:  
25 May 2012

WATER & SEWERAGE AUTHORITY

BALANCE SHEET AT 30 SEPTEMBER 2008

<b>ASSETS</b>	<b>Notes</b>	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	3	3,854,639	3,307,899
Employee benefits asset	13	12,685	–
Held to maturity financial assets	4	<u>221,927</u>	<u>193,772</u>
		<u>4,089,251</u>	<u>3,501,671</u>
<b>Current assets</b>			
Cash and short term deposits	5	140,116	432,835
Restricted cash	6	34,783	51,888
Accounts receivable and prepayments (net)	7	272,496	483,967
Inventories	8	<u>89,406</u>	<u>58,567</u>
		<u>536,801</u>	<u>1,027,257</u>
<b>TOTAL ASSETS</b>		<u>4,626,052</u>	<u>4,528,928</u>

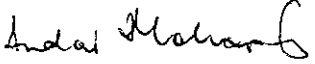
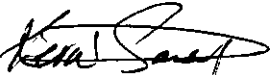

The accompanying notes form an integral part of these financial statements.

WATER & SEWERAGE AUTHORITY

BALANCE SHEET AT 30 SEPTEMBER 2008  
(Continued)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Capital and reserves</b>			
General reserve		113,560	113,560
Accumulated deficit		<u>(3,402,689)</u>	<u>(3,299,938)</u>
Net deficit		<u>(3,289,129)</u>	<u>(3,186,378)</u>
<b>Non-current liabilities</b>			
Borrowings	9	3,933,239	4,056,307
Water Sale Agreement lease obligations	10	638,910	659,384
GORTT subordinated borrowings	11	94,791	104,375
Deferred capital contributions	12	1,419,565	1,272,273
Employee benefits liability	13	<u>120,485</u>	<u>105,967</u>
		<u>6,206,990</u>	<u>6,198,306</u>
<b>Current liabilities</b>			
Bank overdraft and short term financing	14	435,007	267,517
Accounts payable and accruals	15	888,713	914,228
Current portion of borrowings	9, 10 & 11	343,473	299,994
Current portion of deferred capital contributions	12	<u>40,998</u>	<u>35,261</u>
		<u>1,708,191</u>	<u>1,517,000</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,626,052</u>	<u>4,528,928</u>

The accompanying notes form an integral part of these financial statements.

 : Chairman 25/5/2012  
 : Commissioner 25/5/2012  
 : Chief Financial Officer 25/5/2012

WATER & SEWERAGE AUTHORITY

STATEMENT OF REVENUE AND EXPENDITURE  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Notes	2008 \$'000	2007 \$'000
<b>Revenues</b>			
Water rates		494,553	477,704
Sewerage rates		41,307	39,028
Interest income		32,511	33,349
Sundry income	16	15,188	15,561
Deferred contributions released to income - GORTT	12	35,087	29,518
Government operating subventions		<u>1,265,538</u>	<u>1,407,620</u>
		<u>1,884,184</u>	<u>2,002,780</u>
<b>Expenses</b>			
Personnel	17	745,355	640,568
Desalinated water purchases		149,387	140,161
Supplies and services	17	298,686	263,560
Administration	17	101,727	26,298
Depreciation	3	119,183	115,968
Premises	17	90,059	77,722
Transport and plant	17	<u>29,160</u>	<u>27,776</u>
		<u>1,533,557</u>	<u>1,292,053</u>
Net operating surplus		350,627	710,727
Finance expenses	18	<u>(453,378)</u>	<u>(475,599)</u>
Net (deficit)/surplus for the year		<u>(102,751)</u>	<u>235,128</u>

The accompanying notes form an integral part of these financial statements.

WATER & SEWERAGE AUTHORITY

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

	<b>General reserve \$'000</b>	<b>Accumulated deficit \$'000</b>	<b>Total \$'000</b>
<b>Year ended 30 September 2008</b>			
Balance as at 1 October 2007	113,560	(3,299,938)	(3,186,378)
Net deficit for the year	<u>—</u>	<u>(102,751)</u>	<u>(102,751)</u>
<b>Balance as at 30 September 2008</b>	<u>113,560</u>	<u>(3,402,689)</u>	<u>(3,289,129)</u>
<b>Year ended 30 September 2007</b>			
Balance as at 1 October 2006	113,560	(3,535,066)	(3,421,506)
Net surplus for the year	<u>—</u>	<u>235,128</u>	<u>235,128</u>
<b>Balance as at 30 September 2007</b>	<u>113,560</u>	<u>(3,299,938)</u>	<u>(3,186,378)</u>

The accompanying notes form an integral part of these financial statements.



WATER & SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations (Note 20)	481,625	766,812
Interest received	32,511	33,349
Interest paid	<u>(456,613)</u>	<u>(483,500)</u>
Net cash inflows from operating activities	<u>57,523</u>	<u>316,661</u>
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(586,569)	(278,427)
Proceeds on disposal of property, plant and equipment	1,244	-
Increase in held to maturity financial assets	(28,155)	(19,576)
Decrease in restricted cash	<u>17,105</u>	<u>14,732</u>
Net cash outflows from investing activities	<u>(596,375)</u>	<u>(283,271)</u>
<b>Cash flows from financing activities</b>		
Proceeds of deferred capital contributions	188,290	319,599
Finance lease obligation payments (net)	(18,578)	(17,031)
Loan repayments	(279,619)	(303,524)
Proceeds from borrowings	<u>188,550</u>	<u>-</u>
Net cash inflows/(outflows) from financing activities	<u>78,643</u>	<u>(956)</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(460,209)</b>	<b>32,434</b>
<b>Cash and cash equivalents</b>		
- at the beginning of the year	<u>165,318</u>	<u>132,884</u>
- at the end of the year (Note 19)	<u>(294,891)</u>	<u>165,318</u>

The accompanying notes form an integral part of these financial statements.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

#### 1. **Incorporation and nature of business**

The Water and Sewerage Authority (the "Authority") was established in the Republic of Trinidad and Tobago, under the Water & Sewerage Act, Chapter 54:40 with responsibility for:

- a) the provision of an adequate and reliable water supply and the treatment and disposal of wastewater, and
- b) the development and control of water supply and sewerage facilities, and the conservation and proper use of water resources throughout Trinidad and Tobago.

The registered address of the Authority is Farm Road, Valsayn, St. Joseph.

In accordance with Clause 20.1.1 (ii) of the Interim Operating Agreement ("IOA"), which ended on 4 April 1999, the Government of the Republic of Trinidad and Tobago ("GORTT") assumed responsibility for the servicing of all debts and liabilities of WASA, inclusive of all loans, existing or accrued at the effective date of the IOA. As such, GORTT provides direct funding to the Authority to facilitate servicing of these obligations. This is separately presented on the balance sheet as GORTT subordinated borrowings.

These financial statements were authorised for issue by the Board of Commissioners on 25 May, 2012.

#### 2. **Significant accounting policies**

##### a) **Basis of preparation**

These financial statements are expressed in thousands of Trinidad and Tobago dollars and have been prepared on a historical cost basis.

##### *Statement of Compliance*

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### a) Basis of preparation (continued)

###### *Going concern*

As at 30 September 2008, the Authority has an accumulated deficit of \$3,403 million (2007: \$3,300 million), loan and lease indebtedness (short term and long term) of \$5,445 million (2007: \$5,388 million) and its current liabilities exceeded current assets by \$1,171 million (2007: \$490 million). The Authority's operations and solvency are heavily dependent on funding and financing guarantees from GORTT. These financial statements have been prepared on the going concern basis on the assumption that funding will continue to be made available to the Authority by GORTT and the Authority will continue to receive adequate funds to finance losses and future operations.

###### *Changes in accounting policy and disclosures*

###### *New accounting policies and disclosures adopted*

The Authority adopted the amendment to IAS 1 on 1 October 2007. This amendment requires the Authority to make new disclosures to evaluate the Authority's objectives, policies and processes for managing of capital. The adoption of this amendment has had no quantitative impact on the financial statements for the years ended 30 September 2007 and 2008.

###### *IFRS 7 – Financial Instruments: Disclosures (effective 1 January 2007)*

The Authority adopted IFRS 7 on 1 October 2007. This standard requires disclosures that enable users to evaluate the significance of the Authority's financial instruments and the nature and extent of risks arising from these financial instruments. It replaces the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'. The adoption of this standard has had no quantitative impact on the financial statements but have impacted disclosure requirements in these annual financial statements for the years ending 30 September 2007 and 2008.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### a) Basis of preparation (continued)

###### *New accounting policies and disclosures adopted (continued)*

IFRIC 10 – Interim Financial Reporting and Impairment (effective 1 January 2007)

This interpretation requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset earned at cost. The adoption of this interpretation did not have any effect on the financial position or performance of the Authority.

IFRIC 11 IFRS 2 – Treasury Share Transactions (effective 1 January 2007)

This interpretation requires that when an employee is granted rights to an entity's equity instruments it is to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Authority.

###### *Standards in issue not yet effective*

The Authority has not early adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations that have been issued but are not yet effective:

- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010. The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Authority.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. **Significant accounting policies** (continued)

##### a) **Basis of preparation** (continued)

*Standards in issue not yet effective* (continued)

- IFRS 7 Financial Instruments: Disclosures: The amended standard (effective 1 January 2009) requires additional disclosures about fair value measurement and liquidity risk. Fair value measurement related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurement is now required as well as significant transfers between levels in fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management;
- IAS 1 Presentation of Financial Statements: The revised standard (effective 1 January 2009) separates owner and non owner changes in equity. The statement of changes in equity includes transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income, which presents all items of recognized income and expense, either in one single statement, or in two linked statements;
- IAS 23 Borrowing Costs was amended (effective from 1 January 2009) and requires capitalization of borrowing costs that relate directly to the acquisition, construction or production of a qualifying asset as part of the cost of that asset;

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008 (Continued)

#### 2. Significant accounting policies (continued)

##### a) Basis of preparation (continued)

###### *Standards in issue not yet effective (continued)*

- IAS 19 Employee Benefits (revised): This revised standard becomes effective on or after 1 January 2013. The amendments include fundamental changes to the recognition of actuarial gains and losses. Other clarifications relating to the distribution between short term and long term employee benefits as well as the recognition of Termination benefits has been included in the amendments.
- IFRIC 14 IAS 19 The Limit on a defined benefit Asset, minimum funding requirements and their interaction (effective 1 January 2008). This provides guidance on how to assess the limit on the surplus in a defined benefit plan that can be recognised as an asset under IAS 19: Employee Benefits;
- IFRIC 18 Transfers of assets from customers (effective 1 July 2009) provides guidance on when and how an entity should recognise items of property, plant and equipment received from their customers;
- IFRS 9 Financial Instruments (becomes mandatory 1 January 2013). This standard will eventually replace IAS 39 Financial Instruments Recognition and Measurement, and therefore may impact the recognition, measurement and classification of financial instruments.
- Improvements to IFRSs (May 2008 and April 2009). In May and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

The following standards not yet effective have not been early adopted by the Authority and are not applicable to its operations:

- IAS 32 Financial Instruments: Presentation and IAS 1: Presentation of financial statements as it relates to puttable financial instruments and obligations arising on liquidation was amended (effective from 1 January 2009);

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### a) Basis of preparation (continued)

*Standards in issue not yet effective and not applicable (continued)*

- IAS 39 Financial Instruments: Recognition and measurement – eligible hedged items (effective 1 July 2009);
- IFRIC 9 Re-measurement of embedded derivatives (effective 30 June 2009);
- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective 1 January 2008);
- IFRIC 12 – Service Concession arrangements (effective 1 January 2008);
- IFRS 2 – Share based payment: Vesting conditions and Cancellations (effective 1 January 2009);
- IFRS 2 – Share based payment: Group cash settled share based payment transactions (effective 1 January 2010);
- IFRS 3 Business Combinations was amended (effective from 1 July 2009);
- IAS 27 Consolidated and separate financial statements (effective 1 July 2009);
- IFRS 8 – Operating segments (effective 1 January 2009);
- IFRS 13 Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 15 Agreement for the construction of Real Estate (effective 1 January 2009);
- IFRIC 16 Hedges of net investment in a foreign operation (effective 1 October 2008);

##### b) Significant accounting estimates, assumptions and judgements

The preparation of the financial statements in conformity with IFRS necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

**2. Significant accounting policies** (continued)

**b) Significant accounting estimates, assumptions and judgements** (continued)

Although the estimates are based on management's best knowledge and judgment of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below:

*Property, plant and equipment*

Management exercises judgment in determining whether costs incurred can accrue significant future economic benefits to the Authority to enable the value to be treated as capital expenditure. Further judgment is applied in the annual review of the useful lives of all categories of property, plant and equipment and the resulting depreciation determined thereon.

*Pension and termination benefits Plan*

The cost of the defined benefit pension plan and termination benefits plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 13.



## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008 (Continued)

#### 2. Significant accounting policies (continued)

##### b) Significant accounting estimates, assumptions and judgements (continued)

###### *Provision for bad debts*

The Authority maintains an allowance for doubtful debtors at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Authority on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Authority's relationship with its customers, their payment behaviour and known market factors. The Authority reviews the payment history and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Authority utilised different judgments or estimates in relation to the collectability of these balances.

##### c) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses. Such costs includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits will accrue to the Authority and the cost can be measured reliably. All other repairs and maintenance are charged to the statement of revenue and expenditure when incurred.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The costs of assets under construction are classified under 'capital work in progress'. Depreciation is charged when the construction is substantially completed and the assets are ready for use.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### c) Property, plant and equipment (continued)

Gains or losses arising from the derecognition of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of revenue and expenditure when the asset is derecognized.

With the exception of land and capital work in progress, depreciation is charged on all other assets on the straight line basis at rates estimated to write off these assets over their expected useful lives. The useful lives and salvage values used are as follows:

Categories	Useful life (years)	Salvage value (%)
Structures	30 - 50	15
Reservoirs, river intakes, boreholes, wells, mains, stores equipment, truck and lateral lines and pumping station equipment.	20 - 85	–
Pumps, water treatment equipment, meters, office equipment and transport equipment.	15 - 20	–
Toolshop and garage equipment, laboratory equipment, communication and other equipment.	5 - 20	–
Computer equipment	3	–
Desalination plant leased asset	24	2

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### d) Financial instruments

Financial instruments carried on the balance sheet include cash on hand and at bank, restricted cash, accounts receivable and prepayments, held to maturity financial assets, bank overdraft and short term funding, accounts payable and accruals, borrowings and lease obligations. The particular recognition methods adopted are presented in the individual policy statements associated with each item.

##### e) Held to maturity financial assets

Held to maturity financial assets comprise fixed or determinable income securities that the Authority has the positive intention and ability to hold until maturity. After initial measurements, held to maturity financial assets are measured at amortised cost. Premiums and discounts are amortised over the life of the instrument using the effective interest rate method and this is taken to the revenue and expenditure account.

##### f) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the costs of those assets until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the cost of those assets. All other borrowing costs are recognised in the statement of revenue and expenditure in the period in which they are incurred.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### **2. Significant accounting policies (continued)**

##### **g) Inventories**

Inventories are stated at the lower of average cost and net realisable value. Cost represents all costs incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

##### **h) GORTT funding**

These funds are provided by the Government of the Republic of Trinidad and Tobago (GORTT) under its annual recurrent estimates of expenditure and to fund certain capital expenditures such as that under the public sector investment programme. Funding from GORTT relating to recurrent and/or operating expenditures of the Authority are recognised as income in the statement of revenue and expenditure (presented as 'government operating subventions'), to match the related costs that it is intended to compensate. Where the funding relates to the funding of an asset, it is included in non-current liabilities as deferred capital contributions and released to income in equal amounts over the expected useful life of the related asset.

##### **i) Foreign currency translation**

These financial statements are presented in Trinidad and Tobago dollars (expressed in thousands), which is the currency of the primary economic environment in which the Authority operates.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. Exchange differences on foreign currency transactions are recognized in the statement of revenue and expenditure.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### j) Taxation

- i) Under the Water & Sewerage Authority (Tax Exemption) Order, 1990, the Authority is exempt from the payment of stamp duty, customs duty and corporation taxes.
- ii) Under the Value Added Tax Act, the water and sewerage services provided by the Authority are zero-rated.

##### k) Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents include cash and bank balances, net of bank overdrafts and other short-term financing facilities with original maturity of three months or less.

##### l) Employee benefits

The Authority operates a defined benefit plan for its daily paid employees, the assets of which are held in a separate trustee-administrated fund. The pension accounting costs for the plan have been assessed using the projected unit credit method. Under this method the costs of providing pensions is charged to the statement of revenue and expenditure so as to spread the regular cost over the service lives of the employees in accordance with the advice of qualified actuaries.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the defined benefit obligation and the fair value of plan assets. These gains or losses are recognised by amortising it over the average remaining working lifetime of employees.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. Significant accounting policies (continued)

##### m) Employee benefits (continued)

The pension plan is funded by contributions from employees and the Authority, taking into account the recommendations of independent qualified actuaries. These recommendations are based on valuations, which are performed every three years, the last of which was carried out as of 30 September 2003, which revealed that the plan was adequately funded.

The Authority also operates a termination benefit plan for its daily paid employees. Under this Plan a lump sum benefit is paid to such employees upon retirement (through age or ill health), retirement or death. The premiums are funded by contributions by the Authority. The expected costs of these benefits are accounted for over the period of employment, using an accounting methodology similar to that for the defined benefit plan.

##### n) Borrowings

All loans and borrowings are recognized at cost (plus capitalised interest where applicable), being the fair value of the consideration received, net of transaction costs. After initial recognition, these borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and discount or premium on settlement. Gains and losses are recognised in the statement of revenue and expenditure when the liability is derecognised or impaired as well as through the amortisation process.

##### o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured and is derived primarily from the provision of water and sewerage services to the Authority's customers, receipt of GORTT operating funding and interest income. Revenue from the provision of services is recognised on the accrual basis, which coincides with the delivery of services. Revenue from operating advances from GORTT is recognised on a systematic and rational basis over the periods in which the expenses relate.

Interest income is recognised on the accrual basis.

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

#### 2. **Significant accounting policies** (continued)

##### p) **Trade and other receivables**

Trade receivables with credit terms of 14-30 days are recognised and carried at original invoice amounts less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of outstanding amounts are considered doubtful. Bad debts are written-off as incurred.

##### q) **Trade and other payables**

Liabilities for trade and other amounts payable, which are normally settled on 30-90 day terms, are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority.

##### r) **Provisions**

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

##### s) **Impairment of assets**

Various assets of the Authority are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## WATER & SEWERAGE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008 (Continued)

#### 2. Significant accounting policies (continued)

##### t) Leases

###### **Operating leases**

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of revenue and expenditure on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

###### **Finance leases**

Leases for property, plant and equipment where the Authority assumes substantially all the risks and benefits incidental to ownership of the leased asset are classified as finance leases. Finance leases are capitalised at the fair value of the leased asset or if lower at the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The corresponding rental obligations, net of finance charges represent the obligation under the finance lease. The interest element of the finance charge is charged to the statement of revenue and expenditure over the lease period.

Property, plant and equipment acquired under a finance leasing contract is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.



WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

3. Property, plant and equipment

	Land and buildings \$'000	Plant, machinery, equipment and motor vehicles \$'000	Office furniture and equipment \$'000	Capital work in progress (CWIP) \$'000	Total \$'000
<b>At 30 September 2008</b>					
Cost	1,687,453	2,429,709	33,127	894,596	5,044,885
Accumulated depreciation	<u>(531,797)</u>	<u>(647,999)</u>	<u>(10,450)</u>	—	<u>(1,190,246)</u>
Net book amount	<u>1,155,656</u>	<u>1,781,710</u>	<u>22,677</u>	<u>894,596</u>	<u>3,854,639</u>
<b>Net book amount</b>					
1 October 2007	1,169,602	1,732,443	11,208	394,646	3,307,899
Additions	53,528	20,090	14,598	574,748	662,964
Transfers from CWIP	4,799	69,441	558	(74,798)	—
Disposals and other movements (net)	1,874	(165)	1,250	—	2,959
Depreciation charge	<u>(74,147)</u>	<u>(40,099)</u>	<u>(4,937)</u>	—	<u>(119,183)</u>
<b>30 September 2008</b>	<u>1,155,656</u>	<u>1,781,710</u>	<u>22,677</u>	<u>894,596</u>	<u>3,854,639</u>
<b>At 30 September 2007</b>					
Cost	1,632,306	2,346,478	26,899	394,646	4,400,329
Accumulated depreciation	<u>(462,704)</u>	<u>(614,035)</u>	<u>(15,691)</u>	—	<u>(1,092,430)</u>
Net book amount	<u>1,169,602</u>	<u>1,732,443</u>	<u>11,208</u>	<u>394,646</u>	<u>3,307,899</u>
<b>Net book amount</b>					
1 October 2006	1,137,783	1,667,413	9,464	258,505	3,073,165
Additions	33,097	67,455	4,597	242,973	348,122
Transfers from CWIP	35,622	67,373	3,837	(106,832)	—
Disposals and other movements (net)	1,616	—	964	—	2,580
Depreciation charge	<u>(38,516)</u>	<u>(69,798)</u>	<u>(7,654)</u>	—	<u>(115,968)</u>
<b>30 September 2007</b>	<u>1,169,602</u>	<u>1,732,443</u>	<u>11,208</u>	<u>394,646</u>	<u>3,307,899</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

**3. Property, plant and equipment (continued)**

The carrying value of property, plant and equipment held under finance leases at 30 September 2008 amounted to \$540.1 million (2007: \$572 million). This amount includes \$538.6 million (2007: \$570.8 million) in relation to the desalination plant leased asset which has been capitalised in accordance with IAS 17: Leases. Also included therein is the net book value of leased vehicles amounting to \$1.5 million (2007: \$1.2 million). Both the desalination plant and vehicles are presented within plant, machinery, equipment and motor vehicles category above.

Borrowing costs capitalised within property, plant and equipment for the current period amounted to nil (2007: \$2.5 million).

<b>4. Held to maturity financial assets</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
IOA loan (Note 9 a)		
11¼% zero coupon bond 2001 – 2021	112,945	101,524
VSEP bond (Note 9 b)		
11¼% zero coupon bond 2001 – 2026	14,213	12,772
South Water Project – Phase 1 (Note 9 c)		
11½% zero coupon bond 1998 – 2018	<u>94,769</u>	<u>79,476</u>
	<u>221,927</u>	<u>193,772</u>

These financial assets are tied to various borrowings with maturities falling between 2018 – 2026 (inclusive).

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

<b>5. Cash and short term deposits</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand and at bank	34,904	60,346
Short term deposits	<u>105,212</u>	<u>372,489</u>
	<u>140,116</u>	<u>432,835</u>

Cash at bank earn interest based on the daily floating deposit rates at the respective Banks. Short-term deposits carry maturity periods of three months or less and yield interest at rates ranging from 7.00% to 7.36% per annum (2007: 6.0% to 7.35%).

<b>6. Restricted cash</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
a) South Water Project loan	3,820	3,820
b) Charge of escrow accounts		
- IOA loan	23,746	42,416
- VESP bond	<u>7,217</u>	<u>5,652</u>
	<u>34,783</u>	<u>51,888</u>

**Notes:**

- a) The proceeds from the South Water Project loan was placed in an interest bearing account at the Central Bank as per loan agreement. Access to these funds is subject to specific drawdown procedures and approval by senior officials of the Authority and an independent engineering auditor.
- b) The above charge of escrow accounts were created by the Authority arising out of a Trust Deed as security for the payment and discharge of the interest amounts on due dates. These funds are held in an account at RBTT Trust Ltd.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>7. Accounts receivable and prepayments (net)</b>		
Water and sewerage rate debtors:		
Gross receivables	502,979	502,370
Less: Provision for doubtful debts	<u>(334,167)</u>	<u>(316,090)</u>
	<u>168,812</u>	<u>186,280</u>
Other debtors:		
Amounts due from GORTT	4,894	202,825
Value added tax recoverable	68,123	63,111
Water abstraction	46,078	41,601
Staff loan and advances	24,347	21,491
Meter installation	4,840	4,776
Prepayments	5,739	6,069
Miscellaneous debtors	<u>10,157</u>	<u>12,523</u>
	164,178	352,396
Less: Provision for doubtful debts	<u>(60,494)</u>	<u>(54,709)</u>
	<u>103,684</u>	<u>297,687</u>
Total accounts receivable and prepayments (net)	<u>272,496</u>	<u>483,967</u>

As at 30 September, trade receivables at a value of \$334.2 million (2007: \$316.1 million) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance brought forward	316,090	341,877
Amounts written off	(20,258)	(18,823)
Charge/(recovery) for the year	<u>38,335</u>	<u>(6,964)</u>
Balance carried forward	<u>334,167</u>	<u>316,090</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

<b>8. Inventories</b>	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Pipes, fittings and other materials	85,504	58,220
Chemicals and other consumable stores	<u>8,291</u>	<u>5,094</u>
	93,795	63,314
Less: Provision for obsolete and slow moving items	<u>(4,389)</u>	<u>(4,747)</u>
	<u>89,406</u>	<u>58,567</u>

Inventory provisioning recognised as income for the year is \$0.36 million (2007: \$0.68 million) and is recognised net within supplies and services expenses as “stock valuation adjustment” (note 17).

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. Borrowings

	Current	Non-current		Total	
	\$'000	2-5 years \$'000	> 5 years \$'000	2008 \$'000	2007 \$'000
IOA Operator loan (Note a)	–	–	456,419	456,419	489,585
VESP bond (Note b)	8,115	4,058	99,327	111,500	119,615
South Water Project bonds (Note c)	–	141,178	616,970	758,148	758,148
North Water Project bonds (Note d)	30,777	123,110	261,610	415,497	446,274
Citicorp Recurrent Funding (Note e)	94,058	376,295	–	470,353	470,081
National Social Development Programme Funding (Note f)	–	–	–	–	10,367
Fincor recurrent funding (Note g)	25,762	103,053	64,432	193,247	219,009
Citicorp Recurrent Funding (Note h)	10,972	43,888	65,832	120,692	131,663
Labidco Project Loan (Note i)	–	–	–	–	8,767
Fincor recurrent funding (Note j)	24,922	99,688	286,622	411,232	436,154
FCB USD Demand Loan (Note k)	31,462	125,827	109,505	266,794	298,646
North Water Project Bonds (refinanced - Note l)	–	–	414,119	414,119	413,105
FCB Recurrent Funding (Note m)	51,722	103,514	–	155,236	207,006
CBTT Recurrent Funding (Note n)	34,953	140,950	107,384	283,287	318,139
RBTT Recurrent Funding (Note o)	–	–	188,550	188,550	–
Lease obligations (Note p)	<u>672</u>	<u>908</u>	<u>–</u>	<u>1,580</u>	<u>1,288</u>
Total	<u>313,415</u>	<u>1,262,469</u>	<u>2,670,770</u>	<u>4,246,654</u>	<u>4,327,847</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008  
(Continued)

9. **Borrowings** (continued)

a. **IOA Operator loan**

On 7 November 2001 the Authority refinanced the \$450 million IOA Operator Loan, by issuing a bond with a face value of \$456.4 million. The bond was underwritten by Citicorp Merchant Bank Limited, and is repayable via a single bullet payment in November 2021.

There is a three-year moratorium on interest payments from the issue date. The deferred interest is to be paid by six equal semi annual payments commencing from year 3.5 to the 6th anniversary. Regular interest payments will follow on the outstanding principal and deferred interest from year 3.5 and thereafter semi-annually in arrears. The applicable interest rate is 13.10% to year 1.5 and 11.75% thereafter through to year 20.

The bond is secured by zero coupon securities with a maturity value equivalent to the principal at maturity. GORTT has provided a guarantee of an amount equal to 100% of the annual interest payment due on the bond.

Upon refinancing of the IOA \$450 million loan, the zero-rated coupon bonds, which were previously four (4) separate bonds, were consolidated into one (1) bond.

b. **VESP bond**

On 31 December 2001 the Authority refinanced the VESP (1998) bond with Republic Finance & Merchant Bank Limited by issuing a bond with a face value of \$99.3 million, part proceeds of which were used to repay the existing VESP (1998) bond. The new bond was underwritten by Citicorp Merchant Bank Limited, and is repayable with a single bullet payment in December 2026.

There is a three-year moratorium on interest payments from the issue date. The deferred interest will be repaid by ten equal semi-annual payments commencing from year 3.5. Regular interest payments will follow on the outstanding principal and deferred interest from year 3.5 and thereafter semi-annually in arrears. The interest rate is fixed at 11.75%.

The bond is secured by zero coupon securities with a maturity value equivalent to the principal at maturity. GORTT has provided a guarantee of an amount equal to 100% of the annual interest payment due on the bond.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. Borrowings (continued)

	2008	2007
c. South Water Project bonds	\$'000	\$'000
RBTT Merchant Bank Limited:		
Principal balance	300,000	300,000
Capitalised interest	<u>54,783</u>	<u>54,783</u>
	<u>354,783</u>	<u>354,783</u>
Republic Finance & Merchant Bank Limited ("FINCOR"):		
Principal balance	343,000	343,000
Capitalised interest	<u>60,365</u>	<u>60,365</u>
	<u>403,365</u>	<u>403,365</u>
Total	<u>758,148</u>	<u>758,148</u>

**Phase 1**

The finance for Phase 1 of the South Water Project was provided by the RBTT Merchant Bank Limited. The bond of \$300,000,000 was issued on 25 September 1998 and matures on 25 September 2018, on which date, repayment of the principal amount of \$354,782,658 (inclusive of capitalised interest of \$54,782,658) is to be made by a bullet payment.

Interest is charged at the rate of 11.5% per annum and is charged on a half yearly basis on 25 March and 25 September of each year. Interest was capitalised up to 25 March 2000 and was due and payable from 25 September 2000. The interest payments are secured by an unconditional GORTT guarantee.

The principal amount (inclusive of capitalised interest) is secured by semi-annual sinking fund payments of \$3,777,536 commencing on 25 September 2000 and ending on 25 September 2018.

**Phase 2**

The finance for Phase 2 of the South Water Project was provided by FINCOR. The bond of \$343,000,000 was issued in two tranches of \$110,000,000 and \$233,000,000 on 7 October and 1 November 1999 respectively and matures on 7 October 2019.



WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. Borrowings (continued)

c. South Water Project bonds (continued)

Phase 2 (continued)

Interest is charged at the rate of 11.45% per annum during the first ten years of the loan, from 7 October 1999 to 7 October 2009, and 12.00% per annum during the last ten years of the loan, from 7 April 2010 to 7 October 2019. Interest is charged on a half-yearly basis on 7 April and 7 October of each year (commencing on 7 October 2000 in respect of both tranches). Interest was capitalised up to 7 April 2000 and was due and payable with effect from 7 October 2001.

The principal is repayable in twenty semi annual instalments of \$20,168,247 each, commencing 7 April 2010 and ending 7 October 2019. Both principal and interest payments are secured by an unconditional GORTT guarantee.

d. North Water Project bonds	2008 \$'000	2007 \$'000
Republic Finance & Merchant Bank:		
Principal balance	330,000	330,000
Capitalised interest	<u>85,497</u>	<u>116,274</u>
	415,497	446,274
Less: Loan instalments due within one year	<u>(30,777)</u>	<u>(30,777)</u>
	<u>384,720</u>	<u>415,497</u>

This project is intended to upgrade the water and wastewater infrastructure, primarily in North Trinidad.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. Borrowings (continued)

d. North Water Project bonds (continued)

**Phase 1**

The finance for Phase 1 of the North Water Project was provided by a bond floated by the Unit Trust Corporation of Trinidad and Tobago (“UTC”). The bond was issued in three tranches as detailed below:

<b>Tranche</b>	<b>Date disbursed</b>	<b>Principal balance \$'000</b>	<b>Capitalised interest \$'000</b>	<b>Total \$'000</b>
1	April 10, 2000	85,000	21,755	106,755
2	June 5, 2000	100,000	24,258	124,258
3	August 3, 2000	<u>145,000</u>	<u>35,855</u>	<u>180,855</u>
Total		<u>330,000</u>	<u>81,868</u>	<u>411,868</u>

The tenure for each tranche is 20 years. Interest is charged at a fixed rate of 11.4% p.a. and there is a moratorium of 24 months from the date of issue, during which interest is compounded and capitalised on a half yearly basis. Thereafter, it is paid semi annually in arrears, commencing 10 October 2002.

The principal of each tranche is to be repaid in equal semi-annual installments over the last ten years, commencing 10 October 2010. Both principal and interest are secured by an unconditional GORTT guarantee.

The Authority refinanced this bond via the issue of a new bond (issued in three tranches) during the period June to October 2005. The final tranche (tranche 3) amounting to \$106,101,000 was repaid in October 2005. The new loan (refer to Note 9 l) carries an interest rate of 6.35% per annum.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. **Borrowings** (continued)

d. **North Water Project bonds** (continued)

**Phase 2**

The finance for Phase 2 of the North Water Project was provided by a bond floated by FINCOR.

The amount of \$330 million was disbursed on 21 November 2001. Interest is payable semi-annually in arrears at a fixed rate of 11.5%. There is to be a three (3) year moratorium on interest payments with the interest accruing capitalised semi-annually, subsequently payable semi-annually in arrears.

There is to be a five (5) year moratorium on principal repayment. The principal balance is repayable by thirty (30) equal semi-annual payments commencing 5½ years after issue and ending on 21 November 2021. Both principal and interest are secured by an unconditional GORTT guarantee.

	<b>2008</b>	<b>2007</b>
e. <b>Citicorp Recurrent Funding</b>	<b>\$'000</b>	<b>\$'000</b>
Citicorp Merchant Bank Limited:		
Principal balance (net)	411,711	411,439
Capitalised interest	58,642	58,642
Less: Loan instalments due within one year	<u>(94,058)</u>	<u>—</u>
	<u>376,295</u>	<u>470,081</u>

The proceeds of this bond were used to meet operational expenses for fiscal year 2003 and to finance certain overdraft facilities.

Initially, the bond was disbursed as a Commercial Paper in three (3) tranches and matured on 15 June 2003 by which time it would be converted to a loan.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. **Borrowings** (continued)

e. **Citicorp Recurrent Funding** (continued)

The amount of \$413,000,000 was converted to a ten (10) year loan on 27 June 2003. Interest is payable semi-annually in arrears at the rate of 6.75% per annum. There is to be a two (2) year moratorium on interest payments to December 2005, followed by sixteen (16) semi-annual payments in arrears, commencing 27 December 2005.

There is to be a five (5) year moratorium on principal repayment. The principal balance is repayable by ten (10) equal semi-annual payments, commencing 27 December 2008 and ending on the 27 June 2013.

Both principal and interest are secured by an unconditional GORTT guarantee.

<b>f. National Social Development Programme Funding</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
First Citizens Trust & Merchant Bank:		
Principal balance (net)	—	10,367
Less: Loan instalments due within one year	<u>—</u>	<u>(10,367)</u>
	<u>—</u>	<u>—</u>

The Fixed Rate Loan of \$52 million was disbursed on 14 August 2003 on a five (5) year term. The proceeds of this loan were used to finance the second phase of the National Social Development Programme (NSDP).

Interest is payable semi-annually in arrears at the rate of 5.60% per annum, commencing 14 February 2004. The principal balance is repayable by ten (10) equal semi-annual payments commencing 14 February 2004 and ending on the 14 August 2008.

Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008

(Continued)

9. **Borrowings** (continued)

	<b>2008</b>	<b>2007</b>
<b>g. Fincor recurrent funding</b>	<b>\$'000</b>	<b>\$'000</b>
Republic Finance & Merchant Bank Limited:		
Principal balance (net)	193,247	219,009
Less: Loan instalments due within one year	<u>(25,762)</u>	<u>(25,762)</u>
	<u>167,485</u>	<u>193,247</u>

The proceeds of this bond were used to finance existing debt for fiscal year 2004 and to meet additional debt servicing.

The loan was disbursed on 31 December 2003 on a twelve (12) year term. Interest is payable semi-annually in arrears at the rate of 6.10% per annum, commencing 30 December 2005. The principal balance is repayable by twenty-one (21) semi-annual payments commencing 30 December 2005 and ending on the 30 December 2015.

Both principal and interest are secured by an unconditional GORTT guarantee.

	<b>2008</b>	<b>2007</b>
<b>h. Citicorp recurrent funding</b>	<b>\$'000</b>	<b>\$'000</b>
Citicorp Merchant Bank Limited:		
Principal balance	120,692	131,663
Less: Loan instalments due within one year	<u>(10,972)</u>	<u>(10,971)</u>
	<u>109,720</u>	<u>120,692</u>

The proceeds of this bond were used to finance the recurrent expenditure of the Authority.

The amount of \$145.0 million was disbursed on 14 May 2004 on a fifteen (15) year term. Interest is payable semi-annually in arrears at the rate of 5.85% per annum, commencing 14 November 2005. The principal balance is repayable by twenty-eight (28) equal semi-annual payments commencing 14 November 2005 and ending on the 14 May 2019. Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2008  
(Continued)

9. Borrowings (continued)

	2008 \$'000	2007 \$'000
<b>i. Labidco project loan</b>		
First Citizens Bank Limited:		
Principal balance	—	8,767
Less: Loan instalments due within one year	<u>—</u>	<u>(8,767)</u>
	<u>—</u>	<u>—</u>

The proceeds of this bond were used to finance the procurement of pipes and fittings to service industry models in Wallerfield, Mayaro and Labidco.

The amount of \$52.6 million was disbursed on 6 December 2004 on a three (3) year term. Interest is payable semi-annually in arrears at the rate of 4.95% per annum, commencing 6 June 2005. The principal balance is repayable by six (6) equal semi-annual payments commencing 6 June 2005 and ending on the 6 December 2007. Both principal and interest are secured by an unconditional GORTT guarantee.

	2008 \$'000	2007 \$'000
<b>j. Fincor recurrent funding</b>		
Republic Finance & Merchant Bank Limited:		
Principal balance (net)	411,232	436,154
Less: Loan instalments due within one year	<u>(24,922)</u>	<u>(24,922)</u>
	<u>386,310</u>	<u>411,232</u>

The proceeds of this bond were used to finance existing overdraft facility and to provide additional finance to the Authority.

The loan was disbursed on 21 December 2004 on a twenty (20) year term. Interest is payable semi-annually in arrears at the rate of 6.175% per annum, commencing 20 June 2005. The principal balance is repayable by forty (40) semi-annual payments commencing 20 June 2005 and ending on the 21 December 2024. Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
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(Continued)

9. Borrowings (continued)

k. FCB USD demand loan	2008 \$'000	2007 \$'000
First Citizens Bank Limited:		
Principal balance (net)	266,794	298,646
Less: Loan instalments due within one year	<u>(31,462)</u>	<u>(31,462)</u>
	<u>235,332</u>	<u>267,184</u>

The Fixed Rate Loan of US\$60 million was disbursed in two (2) parts in the amounts of US\$30 million each, on 4 February 2005 and 1 March 2005 respectively. The proceeds of this loan were used to refinance an existing desalinated water facility in the sum of US\$30 million and to replenish a second credit line of US\$30 million.

The loan is a twelve (12) year term with interest is payable semi-annually in arrears at a fixed rate of 5.875% per annum for the first seven (7) years and 6.10% for the next five (5) years to maturity commencing 4 August 2005.

The principal balance is repayable by twenty-four (24) equal semi-annual payments commencing 4 August 2005 and ending on the 4 February 2017. Both principal and interest are secured by an unconditional GORTT guarantee.

l. North Water Project Bonds (refinanced)	2008 \$'000	2007 \$'000
Central Bank of Trinidad and Tobago:		
Principal balance (net)	<u>414,119</u>	<u>413,105</u>

The Authority refinanced The North Water Phase 1 \$330 million bond (note 9 d) via a new bond issue of up to \$435 million, issued in three tranches corresponding to the refinancing dates of the existing tranches and with a tenor of fifteen (15) years. The tranches were disbursed during the period June to October, 2005. The first and second tranches were disbursed on 6 June 2005 and 3 August 2005 in the amounts of \$125.0 million and \$192.2 million, respectively. The final tranche (3rd tranche) was disbursed on the 10 October 2005 in the amount of \$115.0 million.

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NOTES TO THE FINANCIAL STATEMENTS  
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(Continued)

9. Borrowings (continued)

i. North Water Project Bonds (refinanced) (continued)

The proceeds of this loan were used to refinance the outstanding balance of the existing North Water Project 1 bond of \$330 million for the financing of the first phase of the Strategic Schemes for Service delivery improvement.

The bonds in each of the 1st Tranche, 2nd Tranche and 3rd Tranche bear interest from their respective issue dates at a fixed rate of 6.35% per annum over a fifteen (15) year term with interest payable semi-annually in arrears.

The principal balance of each tranche is repayable in a single bullet payment fifteen (15) years from the respective issue dates. Both principal and interest are secured by an unconditional GORTT guarantee.

<b>m. FCB recurrent funding</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
First Citizens Bank Limited:		
Principal balance (net)	155,236	207,006
Less: Loan instalments due within one year	<u>(51,722)</u>	<u>(51,770)</u>
	<u>103,514</u>	<u>155,236</u>

The Authority refinanced the FCB \$250,000,000 short-term loan which was fully drawn during the period 29 September 2005 to 9 November 2005 with a new term loan of \$259,663,494 being the principal amount together with interest at the rate of 6.5% calculated as at 9 May 2006.

The loan amount of \$259,663,494 was issued on 9 May 2006 as a five (5) year term loan and bears interest at a fixed rate of 6.5% from the respective issue date. Interest is payable semi-annually in arrears, commencing 9 November 2006.

The principal balance is repayable by ten (10) semi-annual payments commencing 9 November 2006 and ending on the 9 May 2011. Both principal and interest are secured by an unconditional GORTT guarantee.



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(Continued)

9. Borrowings (continued)

n. CBTT Recurrent Funding	2008 \$'000	2007 \$'000
Central Bank of Trinidad & Tobago:		
Principal balance (net)	283,287	318,139
Less: Loan instalments due within one year	<u>(34,953)</u>	<u>(34,852)</u>
	<u>248,334</u>	<u>283,287</u>

The proceeds of this bond were used to finance existing overdraft facility at Republic Bank Limited.

The loan was disbursed on 20 June 2006 on a ten (10) year term at the fixed rate of 7.50% per annum. Interest is payable semi-annually in arrears, commencing 20 December 2006.

The principal balance is repayable by twenty (20) semi-annual payments commencing 20 December 2006 and ending on the 20 June 2016. Both principal and interest are secured by an unconditional GORTT guarantee.

o. RBC Recurrent Funding	2008 \$'000	2007 \$'000
RBTT Merchant Bank Ltd.:		
Principal balance (net)	<u>188,550</u>	<u>—</u>

The proceeds of this loan were used to refinance an existing desalinated water facility in the sum of US\$30 million.

The loan was disbursed on 30 November 2007 on a five (5) year term at the fixed rate of 5.90% per annum. Interest is payable semi-annually in arrears, commencing 30 May 2008.

The principal balance is repayable by a single bullet payment on the 30 November 2012 five years from the respective issue date. Both principal and interest are secured by an unconditional GORTT guarantee.

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(Continued)

9. Borrowings (continued)

p. Lease obligations	2008 \$'000	2007 \$'000
<b>Finance lease obligations:</b>		
Balance brought forward	1,288	927
Additions	1,005	751
Repayments	<u>(713)</u>	<u>(390)</u>
Balance carried forward	1,580	1,288
Amounts due within one (1) year	<u>(672)</u>	<u>(608)</u>
Amount due after one (1) year	<u>908</u>	<u>680</u>
<b>Minimum lease payments:</b>		
Principal and interest:		
- Due within one year	800	652
- Due after one year but not more than five years	<u>860</u>	<u>772</u>
Total minimum lease payments	1,660	1,424
Less: Finance charges element	<u>(80)</u>	<u>(136)</u>
Present value of minimum lease payments	<u>1,580</u>	<u>1,288</u>

The above represents finance lease agreements undertaken by the Authority for the purchase of motor vehicles for certain employees which carry terms of three years and bear interest at rates as at 30 September 2008 ranging from 9.5% to 12.25% per annum (2007: 9.5% to 11.75%).

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	<b>2008</b>	<b>2007</b>
<b>10. Water Sale Agreement lease obligations</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Finance lease obligations:</b>		
Balance brought forward	678,254	695,646
Repayments	<u>(18,870)</u>	<u>(17,392)</u>
Balance carried forward	659,384	678,254
Amounts due within one (1) year	<u>(20,474)</u>	<u>(18,870)</u>
Amount due after one (1) year	<u>638,910</u>	<u>659,384</u>
<b>Minimum lease payments:</b>		
Due within one year	76,521	76,521
Due within two to five years	306,086	306,086
Due over five years	<u>854,490</u>	<u>931,011</u>
Total minimum lease payments	1,237,097	1,313,618
Less: Finance charges element	<u>(577,713)</u>	<u>(635,364)</u>
Present value of minimum lease payments	<u>659,384</u>	<u>678,254</u>

On 25 August 1999 the Authority entered into a contract with the Desalination Company of Trinidad and Tobago (“Desalcott”) for the Company, to build, own and operate a desalination facility (the “Facility”) at Point Lisas comprising desalination units, supporting infrastructure, auxiliaries and sub-systems, together with suitable storage facilities, for desalination of seawater with a continuous and reliable generation of at least 109,090 m<sup>3</sup>/day of high quality water for sale to the Authority at a contracted price.

This contract is effective from 29 November 1999 (the effective date) and has an original term of the earlier of four (4) years and three (3) months from the effective date or until the date of commencement of the commercial operation of the facility at the completion of Phase 5, whichever is the earliest, a period of twenty (20) years thereafter and such other additional period as may be extended under the contract. The agreement will then be effective unless terminated earlier by mutual agreement of both parties. At the expiration of the contractual term, the ownership of the facility shall be transferred to the Authority in consideration for the amount of three million United States dollars (US\$3,000,000).

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(Continued)

**10. Water Sale Agreement lease obligations (continued)**

The Authority may exercise its option to purchase the whole or part of the Facility at any time after the expiry of ten (10) years from the actual commercial operation date of the Facility at the completion of phase 5, or where the Facility or any part thereof is being sold, transferred or otherwise disposed of, or where the Authority terminates the agreement to purchase desalinated water. The price which the Authority will then be obligated to pay will be the net value of the business at that time as determined by an independent appraiser, jointly selected by the Authority and Desalcott.

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>11. GORTT Subordinated borrowings</b>		
a) First Citizens Merchant Bank of Trinidad and Tobago Limited	26,682	30,727
b) Republic Finance & Merchant Bank Limited	50,000	50,000
c) Republic Finance & Merchant Bank Limited	<u>27,693</u>	<u>33,232</u>
	104,375	113,959
Less: Loan instalments due within one year	<u>(9,584)</u>	<u>(9,584)</u>
	<u>94,791</u>	<u>104,375</u>

**Notes:**

- a) The loan from First Citizens Bank Limited received in 1990 is secured by a guarantee from the GORTT. It is in the form of bonds as follows:

<b>Type</b>	<b>Maturity date</b>	<b>Amount</b> <b>\$'000</b>	<b>Interest rate</b>
Series A 20 years	2010	11,450	1.5% below 'Prime'
Series B 25 years	2015	<u>43,550</u>	1.0% below 'Prime'
		<u>55,000</u>	

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**11. GORTT Subordinated borrowings (continued)**

**Notes:** (continued)

The principal amount of the loan is repayable as follows:

- i. During the first ten (10) years, interest only would be payable;
- ii. Re: Series A - ten (10) equal annual payments with respect to Notes/Bonds carrying a 20 year maturity;
- iii. Re: Series B - fifteen (15) equal annual payments with respect to Notes/Bonds carrying a 25 year maturity; and
- iv. The Authority has the option of early repayments.

Interest is to be paid semi-annually in arrears with the rate of interest for each period being established two days prior to the commencement of such period. The applicable interest rates at 30 September 2008 were 10.75% and 11.25% (2007: 10.25% and 10.75%) in respect of the series A and B, respectively.

- b) The loan from Republic Finance & Merchant Bank Limited received in June 1991 is secured by a guarantee from the GORTT. The loan is repayable in full on the twentieth anniversary from the date of the final disbursement made in August 1991. Interest is to be paid semi-annually in arrears at a rate of 1.5% below prime. The applicable interest rate at 30 September 2008 was 10.75% (2007: 8.00%).
- c) The bond of \$78.6 million with Republic Finance & Merchant Bank Limited was issued in May 1993 and is guaranteed by the GORTT. This bond bears interest at 3.5% below average prime, interest being capitalised during the first two years from the date of issue. Interest payments commenced six months after the second anniversary from the date of issue and are paid semi-annually.

The bond and capitalised interest is being repaid in 36 equal semi-annual instalments which commenced in November 1995. The applicable interest rate at 30 September 2008 was 8.75% (2007: 8.25%).

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(Continued)

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>12. Deferred capital contributions</b>		
Balance brought forward	1,307,534	1,019,287
Receipts during the year	188,290	319,599
Transfer to income - GORTT	(35,087)	(29,518)
Transfer to income - Other agencies	<u>(174)</u>	<u>(1,834)</u>
Balance carried forward	1,460,563	1,307,534
Amounts due within one (1) year	<u>(40,998)</u>	<u>(35,261)</u>
Amounts due after one (1) year	<u>1,419,565</u>	<u>1,272,273</u>
<b>13. Employee benefits</b>		
Pension benefits asset (See Note a)	(12,685)	–
Termination benefits liability (See Note b)	<u>120,485</u>	<u>105,967</u>
	<u>107,800</u>	<u>105,967</u>
<b>(a) Pension benefits asset</b>		
i) The amount recognised in the balance sheet is derived as follows:		
Present value of pension obligation	466,760	377,928
Fair value of assets	<u>(551,985)</u>	<u>(493,753)</u>
Plan surplus	(85,225)	(115,825)
Unrecognised actuarial gain	43,606	43,606
Unutilisable assets	<u>28,934</u>	<u>72,219</u>
Asset recognised in the balance sheet	<u>(12,685)</u>	<u>–</u>
Movement in asset recognised in the balance sheet:		
Opening asset	–	–
Net pension (income)/expense	(6,544)	4,780
Contributions paid	<u>(6,141)</u>	<u>(4,780)</u>
Closing asset	<u>(12,685)</u>	<u>–</u>

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(Continued)

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>13. Employee benefits</b> (continued)		
<b>(a) Pension benefits asset</b> (continued)		
ii) Changes in the present value of the defined benefit obligation as follows:		
Defined benefit obligation at start	377,928	359,817
Current service cost	5,782	6,407
Interest cost	31,913	30,627
Contributions by plan participants	3,888	3,002
Actuarial loss/(gain)	74,240	(1,913)
Benefits paid	<u>(26,991)</u>	<u>(20,012)</u>
Defined benefit obligation at end	<u>466,760</u>	<u>377,928</u>
iii) Changes in the fair value of plan assets are as follows:		
Plan assets at start of year	493,753	454,011
Expected return on plan assets	48,547	45,252
Actuarial gain	26,647	6,720
Contributions by employer	6,141	4,780
Contributions by plan participants	3,888	3,002
Benefits paid	<u>(26,991)</u>	<u>(20,012)</u>
Plan assets at end of year	<u>551,985</u>	<u>493,753</u>

The estimated contribution to the plan in the financial year 2009 is \$7.3 million.

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NOTES TO THE FINANCIAL STATEMENTS  
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(Continued)

**13. Employee benefits (continued)**

**(a) Pension benefits asset (continued)**

iv) The net amount recognised in the statement of revenue and expenditure is derived as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	5,782	6,407
Interest cost	31,913	30,627
Expected return on plan assets	(48,547)	(45,252)
Amortised net loss/(gain)	47,593	(8,633)
Adjustment for unutilisable assets	<u>(43,285)</u>	<u>21,631</u>
Net (income)/expense recognised in the statement of revenue and expenditure	<u>(6,544)</u>	<u>4,780</u>

v) Return on plan assets

Expected return on plan assets	48,547	45,252
Actuarial gain on plan assets	<u>26,647</u>	<u>6,720</u>
Actual return on plan assets	<u>75,194</u>	<u>51,972</u>

Major categories of plan assets as a percentage of fair value:

Equity securities	49%	54%
Debt securities	43%	39%
Other	8%	7%



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**13. Employee benefits (continued)**

**(a) Pension benefits asset (continued)**

v) Return on plan assets (continued)

Experience history for the current and previous three periods are as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Defined benefit obligation	466,760	377,928	359,817	411,968
Fair value of plan assets	<u>(551,985)</u>	<u>(493,753)</u>	<u>(454,011)</u>	<u>(519,644)</u>
Surplus	<u>(85,225)</u>	<u>(115,825)</u>	<u>(94,194)</u>	<u>(107,676)</u>
Experience adjustments on plan liabilities	<u>(74,240)</u>	<u>1,913</u>	<u>12,924</u>	<u>(62,845)</u>
Experience adjustments on plan assets	<u>26,647</u>	<u>6,720</u>	<u>(97,604)</u>	<u>15,346</u>

**(b) Termination benefits liability**

The Industrial Agreement covering the daily paid employees provides for a termination benefit if an employee is retrenched, laid off or upon retirement. The valuation of these benefit obligations is carried out by independent actuaries as at the date of the valuation of the Pension Plan.

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(Continued)

13. **Employee benefits** (continued)

(b) **Termination benefits liability** (continued)

Liability for termination benefits – daily paid employees:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
i) Amounts recognised as follows:		
Present value of funded obligations	133,582	128,561
Unrecognised actuarial loss	<u>(13,097)</u>	<u>(22,594)</u>
Closing liability	<u>120,485</u>	<u>105,967</u>
ii) Movement in liability recognised in the balance sheet:		
Opening liability	105,967	94,421
Net benefit cost	17,013	14,206
Benefits paid	<u>(2,495)</u>	<u>(2,660)</u>
Closing liability	<u>120,485</u>	<u>105,967</u>
iii) Amounts recognised in the statement of revenue and expenditure:		
Current service costs	4,907	4,774
Interest on benefit obligations	11,142	9,247
Amortised net loss	<u>964</u>	<u>185</u>
Net expense recognised in the statement of revenue and expenditure	<u>17,013</u>	<u>14,206</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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(Continued)

13. Employee benefits (continued)

	<b>2008</b>	<b>2007</b>
<b>(b) Termination benefits liability (continued)</b>	<b>\$'000</b>	<b>\$'000</b>
iv) Changes in present value of funded obligation as follows:		
Present value of funded obligation at start	128,561	106,985
Current service cost	4,907	4,774
Interest cost	11,142	9,247
Actuarial (gain)/loss	(8,533)	10,215
Benefits paid	<u>(2,495)</u>	<u>(2,660)</u>
Present value of funded obligation at end	<u>133,582</u>	<u>128,561</u>

The estimated benefit payment in the financial year 2009 is \$2.7 million.

<b>(c) Principal actuarial assumptions</b>	<b>2008</b>	<b>2007</b>
Discount rate	8.75%	8.75%
Expected of return on plan assets	10.00%	10.00%
Expected rate of wage increases	6.50%	6.50%
Expected rate of pension increases	3.00%	3.00%

**(d) Monthly paid staff**

The pensions in relation to the monthly paid staff are catered for out of the Consolidated Fund of GORTT under the Pensions Act Chapter 23.52. The Authority is not required to make any payments into the Consolidated Fund in respect of these pension rights.

Termination benefits to monthly rated employees only arise on redundancy. The cost of providing these benefits is met by the Authority.

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(Continued)

<b>14. Bank overdraft and short term financing</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Republic Bank of Trinidad and Tobago Limited:		
- Overdraft facility (see note a)	408,811	72,585
- Desalination Facility (see note b)	25,387	189,923
- Other (see note c)	<u>809</u>	<u>5,009</u>
	<u>435,007</u>	<u>267,517</u>

Security and other details:

- (a) Drawdowns up to \$400 million are secured by a letter of comfort from GORTT. This facility bears interest at a floating rate of 1.75% below prime and is secured by Letter of Comfort from the Government of the Republic of Trinidad and Tobago. The applicable interest rate at the balance sheet date is 11% per annum (2007: 10%).
- (b) The facility is a revolving line of credit facility of up to US\$30 million. The facility is to be used to enable WASA to make prompt payments of all monthly billings from the Desalination Company of Trinidad and Tobago (Desalcott) in respect of the sale of desalinated water to WASA.

All amounts drawn and outstanding under the facility and all interest and other sums payable in respect of the facility will be due and payable or, as the case may be, repayable at any time forthwith on demand. The facility will be reviewed annually.

Interest will be calculated on the cleared daily debit balance under the facility at the US dollar prime rate as varied from time to time less 0.5% and will be payable monthly in arrears. The applicable interest rate as at 30 September 2008 is 8.5% per annum (2007: 8.5%).

The facility is secured at all times by the guarantee of the Government of The Republic of Trinidad and Tobago.

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(Continued)

**14. Bank overdraft and short term financing** (continued)

Security and other details: (continued)

(c) This relates to the reclassification of amounts overdrawn on the Republic Bank NSDP account and the First Citizens Bank operating account in the amounts of \$0.8 million (2007: \$0.8 million) and nil (2007: \$4.2 million) respectively

<b>15. Accounts payable and accruals</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade creditors	290,729	286,191
Employee related liabilities	187,688	304,160
Loan interest payable	114,465	117,700
Litigation accruals	51,568	54,034
Capital work in progress accruals	192,856	110,369
Deferred income	34,199	33,052
Other accrued charges	<u>17,208</u>	<u>8,722</u>
	<u>888,713</u>	<u>914,228</u>
<b>16. Sundry income</b>		
Water abstraction revenue	6,716	7,494
Contributions from Government and other agencies	1,868	2,782
Rental income	2,926	2,619
Gain on disposal of assets	1,244	-
Other sundry income	<u>2,434</u>	<u>2,666</u>
	<u>15,188</u>	<u>15,561</u>

WATER & SEWERAGE AUTHORITY

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(Continued)

<b>17. Expenses</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Included in the expenses are the following:		
<i>Personnel</i>		
Salaries and wages	425,096	404,514
Statutory deductions	127,898	68,019
Overtime	99,576	91,442
Allowances	27,019	21,445
Travel and subsistence	30,209	21,431
Other benefits	25,088	14,731
Net pension expense defined benefits pension plan and termination benefit (note 13)	<u>10,469</u>	<u>18,986</u>
	<u>745,355</u>	<u>640,568</u>

Key management relate to personnel having authority and responsibility for planning, directing the activities of the Authority. Key management compensation is included within personnel costs and is summarised below:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term benefits	<u>17,854</u>	<u>18,738</u>
<i>Supplies and services</i>		
Hired and contracted services	152,229	96,867
Chemicals	34,962	27,173
Materials	31,484	39,040
Plant hire	31,375	30,472
Tankering of water	15,876	16,720
Road reinstatement	20,518	17,059
Professional fees	10,445	16,199
Minor equipment rental	7,543	9,814
Stock valuation adjustments	<u>(5,746)</u>	<u>10,216</u>
	<u>298,686</u>	<u>263,560</u>

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17. Expenses (continued)	2008 \$'000	2007 \$'000
<i>Administration</i>		
Bad debts	38,335	(6,964)
Penalties and fines	8,298	5,379
Legal fees	1,125	759
Promotions and publicity	15,574	7,452
Insurance	5,116	3,128
Office materials and supplies	4,496	3,042
Postage	2,136	1,172
RIC fees	2,254	1,826
Settlement of claims	5,326	1,839
Local and foreign travel	2,059	1,553
Seminars and conferences	11,514	2,792
Other	<u>5,494</u>	<u>4,320</u>
	<u>101,727</u>	<u>26,298</u>
<i>Premises</i>		
Electricity	66,765	59,836
Telephones	10,922	10,214
Property rental and other	<u>12,372</u>	<u>7,672</u>
	<u>90,059</u>	<u>77,722</u>
<i>Transport and plant</i>		
Vehicle rental	24,684	22,624
Fuel, oil, parts and spares	4,476	4,065
Other	<u>—</u>	<u>1,087</u>
	<u>29,160</u>	<u>27,776</u>

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(Continued)

<b>18. Finance expenses</b>	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Interest on borrowings	381,628	398,121
Interest on overdrafts and other finance costs	14,098	16,557
Desalinated water purchases – finance charges	<u>57,652</u>	<u>60,921</u>
	<u>453,378</u>	<u>475,599</u>
 <b>19. Cash and cash equivalents</b>		
For the purpose of the statement of cash flows, cash and cash equivalents comprises:		
Cash on hand and at bank (Note 5)	140,116	432,835
Bank overdraft (Note 14)	(409,620)	(77,594)
Republic Bank - desalination facility (Note 14)	<u>(25,387)</u>	<u>(189,923)</u>
Cash and cash equivalents per statement of cash flows	<u>(294,891)</u>	<u>165,318</u>



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	<b>2008</b>	<b>2007</b>
<b>20. Cash generated from operations</b>	<b>\$'000</b>	<b>\$'000</b>
Net (deficit)/surplus for the year	(102,751)	235,128
Adjustments to reconcile net surplus to net cash generated from operating activities:		
- Deferred GORTT contributions released to income	(35,261)	(31,352)
- Depreciation	119,183	115,968
- Gain on disposal of plant, property and equipment	(1,244)	-
- Interest income	(32,511)	(33,349)
- Interest expense	453,378	475,599
- Provision for bad debts	38,335	(6,964)
- Movement in employee benefits obligations (net)	<u>1,833</u>	<u>11,546</u>
Operating profit before working capital changes	440,962	766,576
<b>Working capital changes</b>		
- Increase in inventories	(30,839)	(32,927)
- Decrease/(increase) in accounts receivable and prepayments	173,136	(149,297)
- (Decrease)/increase in accounts payable and accruals	<u>(101,634)</u>	<u>182,460</u>
Cash generated from operations as per statement of cash flows	<u>481,625</u>	<u>766,812</u>

**21. Commitments**

**a) Capital commitments**

The Authority has a continuous programme of expenditure on property, plant and equipment, which are singly or jointly financed by GORTT, local financial institutions and the Authority itself. At 30 September 2008 contracts awarded in respect of development works which had not yet commenced or concluded at that date amounted to approximately \$472.6 million (2007: \$199.7 million).

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21. **Commitments** (continued)

b) **Operating lease commitments**

Future minimum rentals payable under operating leases entered into with various companies in respect of motor vehicle and property rentals are as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Due within one year	9,128	12,163
Due after one year but not more than five years	29,101	35,428
Due over five years	<u>1,094</u>	<u>4,411</u>
	<u>39,323</u>	<u>52,002</u>

Operating lease expenses amounting to \$12.163 million (2007:\$13.489 million) is included within property rental and vehicle rental expenses in the revenue and expenditure account (refer to note 17).

22. **Contingent liabilities**

a) **Litigation and other claims**

In the course of business, the Authority is the defendant in certain litigation matters, claims and other legal proceedings. Provisions have been established for such matters where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made. The Authority remains contingently liable in respect of these matters which could not be quantified or are considered remote and thus no provision is made in these financial statements. In the opinion of management, the ultimate resolution of these matters would not give rise to any significant losses.

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NOTES TO THE FINANCIAL STATEMENTS  
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**22. Contingent liabilities** (continued)

<b>b) Other contingent liabilities</b> (continued)	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
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The following other contingent liabilities existed at 30 September:

Customs bonds	<u>68</u>	<u>68</u>
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**23. Fair value and financial risk management**

**a) Fair value**

The carrying amounts of the Authority's cash and cash equivalents, restricted cash, short-term financing, accounts receivable and prepayments, accounts payable and accruals, approximate their fair value, in view of their short-term maturities of a year or less. The fair value of the long term fixed rate borrowings and other financial instruments is presented below:

	<b>Carrying amount 2008 \$'000</b>	<b>Fair value 2008 \$'000</b>	<b>Carrying amount 2007 \$'000</b>	<b>Fair value 2007 \$'000</b>
<b>Financial assets:</b>				
Cash at bank	34,904	34,904	60,346	60,346
Accounts receivable	266,757	266,757	477,898	477,898
Short term deposits	105,212	105,212	372,489	372,489
Held to maturity financial assets	221,927	221,927	193,772	193,772
<b>Financial liabilities:</b>				
Bank overdraft and short term financing	435,007	435,007	267,517	267,517
Borrowings	5,010,413	4,501,755	5,120,060	4,557,853
Accounts payable and accruals	888,713	888,713	914,228	914,228

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**23. Fair value and financial risk management** (continued)

**b) Financial risk management**

The Authority's activities expose it to a variety of financial risks, including the effects of changes in interest rates and market liquidity conditions. Accordingly, the Authority's financial performance and position are subject to changes in the financial markets. Overall risk management measures are focused on minimizing the potential adverse effects in the financial performance of the Authority of changes in financial markets.

*Credit risk*

Credit risk is the risk that counter-party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risks from its operating activities (primarily trade accounts receivables) and from its financing activities, including deposits with banks and financial institutions.

Management has considered this risk from its operating activities to be limited, in light of the current collection rate for water and sewerage rate debtors and given the additional operating funding provided by GORTT. Appropriate provisions have been established for amounts considered uncollectable. Surplus cash deposits are made with reputable financial institutions.

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**23. Fair value and financial risk management (continued)**

**b) Financial risk management (continued)**

The following table shows the maximum exposure to credit risk for the components of the balance sheet without taking account of any other credit enhancements:

	<b>Gross maximum exposure 2008 \$'000</b>	<b>Gross maximum exposure 2007 \$'000</b>
Accounts receivable	266,757	477,898
Cash and short term deposits	140,116	432,835
Restricted cash	34,783	51,888
Held to maturity financial assets	<u>221,926</u>	<u>193,772</u>
	<u>663,582</u>	<u>1,156,393</u>

*Interest rate risk*

Interest rate risk centres on the risk that debt service cash outflow will increase due to changes in market interest rates. The Authority's exposure to interest rate risk relates mainly to its borrowings and short term financing. The Authority manages its interest cost by obtaining funding from a portfolio of fixed and variable rate debt instruments. Interest payments on this debt are GORTT guaranteed. The interest rate exposure of borrowings is as follows:

<b>Total borrowings</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
At fixed rate	4,906,038	5,006,101
At floating rate	104,375	113,959

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**23. Fair value and financial risk management (continued)**

**b) Financial risk management (continued)**

**Interest rate risk table**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Authority's net surplus for the year:

	<b>Increase/(decrease) in basis points</b>	<b>Effort on net surplus \$'000</b>
<b>2008</b>	+ 100	123.5
	-100	(123.5)
<b>2007</b>	+100	135.4
	-100	(135.4)

*Liquidity risk*

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Authority is heavily dependent on available credit facilities such as long term loans, overdrafts and other financing options to support its current and long term liquidity requirements. These loans and facilities are GORTT guaranteed.

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(Continued)

**23. Fair value and financial risk management (continued)**

**b) Financial risk management (continued)**

*Liquidity risk (continued)*

The table below summarises the maturity profile of the Authority's financial liabilities at 30 September:

2008	1 to			Total
	1 Year	5 years	> 5 Years	
	\$'000	\$'000	\$'000	\$'000
Bank overdraft and short term financing	435,007	–	–	435,007
Borrowings	343,473	1,399,356	3,267,584	5,010,413
Accounts payable and accruals	888,713	–	–	888,713
<b>2007</b>	<b>1 to</b>			<b>Total</b>
	<b>1 Year</b>	<b>5 years</b>	<b>&gt; 5 Years</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft and short term financing	267,517	–	–	267,517
Borrowings	299,994	1,411,330	3,408,736	5,120,060
Accounts payable and accruals	914,228	–	–	914,228

*Foreign currency*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Management monitors its exposure to foreign currency fluctuations and employs appropriate strategies to mitigate any potential losses. Risk management in this area is active to the extent that hedging strategies are available and cost effective.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008 (Continued)

#### 23. Fair value and financial risk management (continued)

##### b) Financial risk management (continued)

###### *Foreign currency (continued)*

2007

	TTD \$'000	USD \$'000	Total \$'000
<b>Assets</b>			
Cash and short term deposits	432,835	–	432,835
Restricted cash	51,888	–	51,888
Accounts receivable	477,898	–	477,898
Held to maturity financial assets	193,772	–	193,772
<b>Liabilities</b>			
Bank overdraft and short term financing	77,594	189,923	267,517
Borrowing	4,821,594	298,646	5,120,060
Accounts payable and accruals	914,228	–	914,228

#### 24. Capital management

The primary objective of the Authority's capital management is to safeguard its ability to continue as a going concern and thus fulfill its mandate under the WASA Act. In so doing the Authority will monitor and seek to maintain the most optimal capital structure in the current circumstances.

#### 25. Related party information

In the normal course of the Authority's business, transactions are conducted with certain government related entities. All such transactions are made on terms equivalent to those that prevail in an arm's length transaction.



WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS  
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**25. Related party information (continued)**

Included in the Water and Sewer rate receivable balance at year end is an amount of \$15.8 million (2007: \$15.9 million) representing amounts due from twenty-six (26) government related entities. Water and Sewer rate revenues in the amount of \$24.2 million (2007: \$24 million) were derived from these government related entities for the year ended 30 September 2008.

**26. Subsequent event**

As previously reported, GORTT originally approved a decision to separate the “Water” from “Wastewater” operations and as a result a Transition Task Force was established to oversee this transition.

At the audit report date, as a matter of policy the separation of Water and Wastewater is no longer being pursued. The consultant has made a presentation on the reintegration of water and wastewater which the Board has accepted.